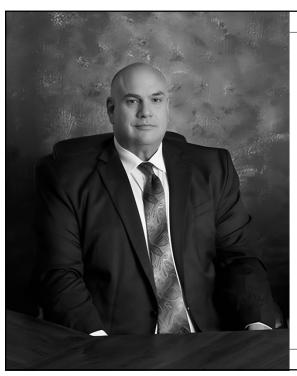
## INTERNAL CONTROLS & RISK ASSESSMENT



Paul D. Joyce, CPA State Examiner

2025 County Treasurers Conference

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### PAUL D. JOYCE, CPA STATE EXAMINER

Indiana's State Examiner and the agency head for the State Board of Accounts, Paul Joyce coordinates and manages the post-audits and examinations of over 4,000 state and local governmental entities in Indiana.



# Management Responsibilities

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### **Definition of Internal Controls**



➤ Internal control is the process by which management structures an organization to provide assurance that an entity <u>operates</u> effectively and efficiently, has reliable financial <u>reporting</u> system and <u>complies</u> with applicable laws and regulations.

### Purpose of Internal Controls



To combat fraud and mistakes by:

- Preventing Opportunity

- Detecting Fraud, Errors, and Omissions



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### Objectives:



1. Operations

Working effectively & efficiently

2. Reporting

Reliable, Timely, & Transparent

3. Compliance

Adhere with laws and regulations

### Components:

- 1. Control Environment
- 2. Risk Assessment
- 3. Control Activities
- 4. Information and Communication
- 5. Monitoring Activities





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### Control Environment "Tone at the Top"



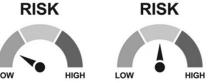
- > Demonstrates commitment to integrity and ethical values
- > Exercises oversight responsibility
- > Establishes structure, authority, and responsibility
- > Demonstrates commitment to competence
- Enforces accountability



### Risk Assessment "Where is the Risk"



- Specifies relevant objectives with sufficient clarity
- ➤ Identifies achievement of objective risks and analyzes risks to determine manageability
- Assesses the potential for fraud within risks
- ➤ Identifies and analyzes significant change that could impact



Low

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### Control Activities "Policies & Procedures"



- Selected and Developed to mitigate risks to the objectives to acceptable levels
- Develop IT Controls to support the objectives
- Deploy policies that establish what is expected and procedures that put policies into place.

### Information and Communication



- ➤ Obtains or generates and uses relevant, quality information to support the internal control function
- Internally communicates information
- Communicates with external parties



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### **Monitoring Activities**



- Develop and perform ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning
- ➤ Evaluate and communicate internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including management and the governing boards, as appropriate.

### Additional Guidance



Uniform Internal Control Standards for Indiana Political Subdivisions – Internal Control Manual

Uniform Compliance Guidelines (Manuals) 🕶

Manuals

Internal Control Manual

Uniform Internal Control Standards for Indiana Political Subdivisions

Information Technology Manual

Accounting and Uniform Compliance Guidelines Manual for Indiana Political Subdivisions - Information Technology

**County Treasurers Manual** 

You can view the manual online by clicking on one of the Chapters below:

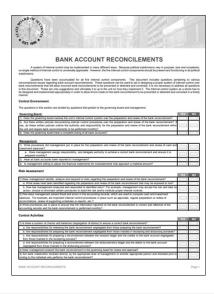
13

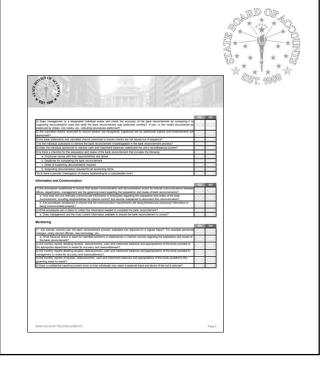
### Best Practices "How to get Started"



- Available on the SBOA website (Counties page): <a href="https://www.in.gov/sboa/political-subdivisions/counties/">https://www.in.gov/sboa/political-subdivisions/counties/</a>
- Questionnaires designed to help develop policies and procedures
- > Two versions:
  - Long version
  - Snapshot version

### Snapshot...





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# SBOA Responsibilities at Audit



Understanding
Internal
Controls
and Risk
Assessment

Required to understand internal controls in place

- Prepare a risk assessment of each audit area
- Create the audit plan

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### **Understanding Internal Controls**



\*\*As Fiscal Officer, the Auditor completes these forms – Treasurer may never see

- ➤ Form 7 Questionnaire at the Entity Level about Control Environment, Risk Assessment, Information & Communication, and Monitoring (Along with IT controls)
- ➤ Form 9 Questionnaire to understand the County structure and form
- Form 13 Fiscal Officer Certification of Financial Statements, Schedules, and Notes

### **Understanding Internal Controls**



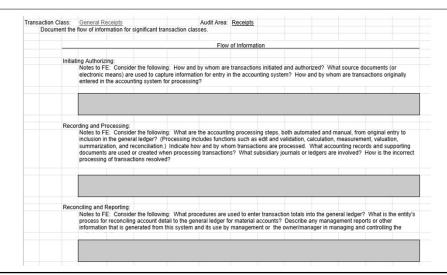
- ➤ Form 45 This form relates to the Form 7 but reviews the Control Activities. It is used to get a detailed account of policies and procedures for:
  - 1. Cash and Investments
  - 2. Receipts
  - 3. Disbursements
  - 4. Financial Close and Reporting
  - 5. Notes to the Financial Statements

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# Account Balance(s) Cash and Investments Document the reconciliation routine for material account balances. Reconciliation Routine Reconciliation Routine

### Form 45 Receipts





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### **Takeaways**



- Internal Controls are designed and implemented by management
- Internal Controls should always be evolving and never stagnant
- Segregation of Duties
- Document, Document, Document

